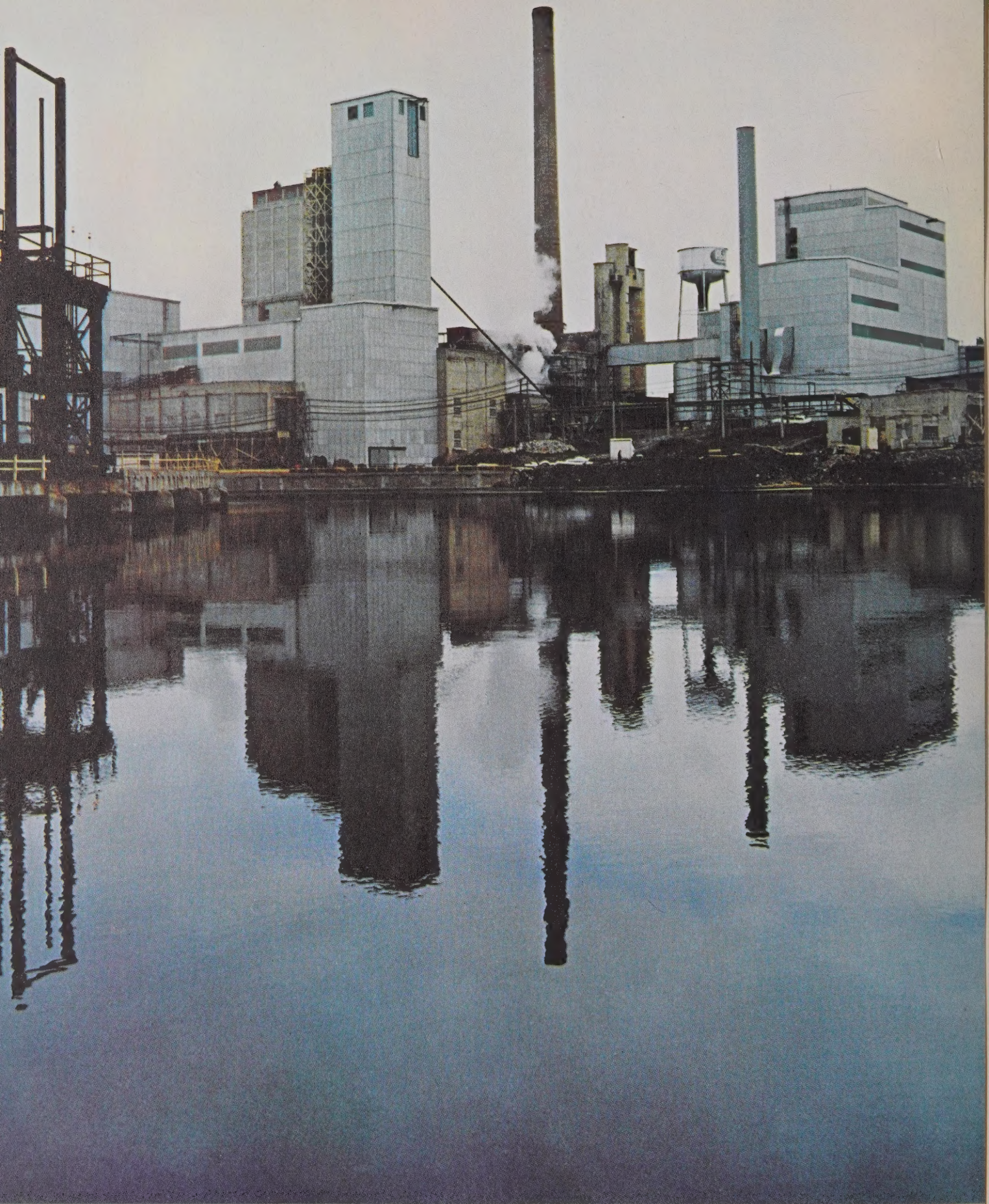


AR05

**Abitibi**



The new multi-million dollar expansion of production facilities at Smooth Rock Falls, Ontario is impressive in this view from above the power dam. Capable of producing more than 100,000 tons of bleached kraft pulp annually, this mill processes black spruce and other pulpwood species into a top quality pulp for use in our fine paper operations and for sale on the market.

# ABITIBI PAPER COMPANY LTD.

## ANNUAL REPORT FOR THE YEAR ENDED DECEMBER 31, 1965

### HIGHLIGHTS

	1965	1964
Net sales . . . . .	\$ 194,411,148	\$ 184,708,539
Net earnings before taxes on income . . .	\$ 32,896,007	\$ 35,431,698
Taxes on income—current . . . . .	\$ 8,092,000	\$ 12,757,500
—deferred . . . . .	8,068,000	4,740,500
—total . . . . .	\$ 16,160,000	\$ 17,498,000
Net earnings after all taxes on income		
Amount . . . . .	\$ 16,736,007	\$ 17,933,698
Per share . . . . .	\$ .96¼	\$ 1.01
<i>Net earnings after current taxes on income but before deferred taxes on income</i>		
Amount . . . . .	\$ 24,804,007	\$ 22,674,198
Per share . . . . .	\$ 1.42¾	\$ 1.28¼
Dividends declared on preferred shares	\$ —	\$ 395,221
Dividends declared on common shares	\$ 9,727,742	\$ 9,639,413
Per common share . . . . .	\$ .56	\$ .56
Capital expenditures . . . . .	\$ 31,621,570	\$ 19,886,581
Working capital at end of year . . . . .	\$ 48,756,659	\$ 46,004,640
Number of holders of common shares . .	31,148	25,476

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*The annual meeting of shareholders will be held at the Royal York Hotel in the City of Toronto on Thursday, the fourteenth day of April, 1966 at the hour of eleven-thirty in the forenoon*

On peut obtenir ce rapport annuel en français sur demande

## REPORT TO THE SHAREHOLDERS

PAUL E. ROBERTS



Net earnings per common share are 96¼¢ as compared with \$1.01 in 1964, a decrease of 4.7%. This was not unexpected knowing the magnitude of our expansion plans for the year and the impact of expansion activities on operating efficiencies and production. Pulp, fine paper and board operations, particularly, were hampered from time to time throughout the year by construction upset and required shutdowns.

All pre-production and start-up costs incurred in 1965 have been taken up as a charge against earnings in that year. Dollar earnings of \$16,736,007 are the second highest in our history.

There was a small increase in the number of common shares in both 1965 and 1964 and the calculation of earnings per share is based on shares outstanding at the close of each year. Following the redemption of preferred shares at the end of 1964, all net earnings of the company now accrue to holders of our common shares, either as dividends or as an increase in equity.

Net sales of \$194,411,148, the highest in our history, show an increase of 5.2% in comparison with 1964. Sales increased in all product lines except market pulp where production was curtailed to permit conversion of our Smooth Rock Falls mill from bleached sulphite to bleached kraft pulp.

Dividends declared on common shares totalled \$9,727,742 and were at the rate of 56¢ per annum. This

rate has been in effect for the past two years and is an increase over the former rate. Dividends in 1965 are 58.1% of net earnings.

Capital expenditures on properties, plant and equipment were \$31,621,570. This substantial outlay resulted in further significant improvements and expansions to our facilities for the manufacture of newsprint, fine papers, pulp and board products.

To assist in financing the current capital expenditure program, which extends beyond 1965, we issued Sinking Fund Debentures of a par value of \$20,000,000 U.S. funds equivalent to \$21,500,000 in Canadian funds. When reduction in other debt is taken into account, the net increase in long-term debt was \$18,678,187.

With the approval of shareholders our corporate name was changed to Abitibi Paper Company Ltd. from Abitibi Power & Paper Company, Limited effective December 1, 1965. This change was made because the old name did not emphasize our principal business which is the manufacture of paper and allied products. While we do have very valuable power developments at several of our mills, sale of power to the public is nominal in relation to power generated and consumed in our operations. Share certificates bearing the former name are not being called in for exchange and will be recognized as proof of ownership of Abitibi common shares in the future as in the past.

### **The industry in 1965**

Pulp and paper usage increases in a prosperous and expanding economy such as existed in 1965 and under these conditions the world produced and consumed more pulp and paper than ever before.

The business climate was generally satisfactory throughout the year, although competitive influences in no way slackened and both production and consumption were again affected to some extent by strikes.

Newsprint shipments by the Canadian industry were about 79% to the United States, 14% to overseas customers and the remaining 7% was consumed in our home markets.

Consumption of newsprint in the United States increased by 5% to a record total of about 8,460,000 tons. Canada supplied 72% of United States newsprint requirements in 1965 as compared with 70% in 1964.

The relationship between the United States dollar and the Canadian dollar was relatively constant throughout the year and, as the year closed, the premium on U.S. funds was 7½%.

Economic growth in Canada and the United States, our principal market areas, was about comparable to that of 1964. Business activity in North America continued to grow as 1965 came to a close and indications are that 1966 should again be a year of progress for the industry.

### **Abitibi in 1965**

The impact of major expansion activities consisting of pre-production expenses, temporary shutdowns and subsequent start-up costs more than accounts for the decrease of 4.7% in net earnings per common share. This temporary penalty is part of a sound investment for the future and such penalties are unavoidable if Abitibi is to grow and prosper. While 1965 earnings were particularly affected, there will be a continuation of similar influences in our operations during the first half of 1966.

The attention of shareholders is directed to the 1965 provision for income taxes of \$16,160,000 which includes both taxes currently payable and the substantial amount of \$8,068,000 for which payment will be deferred to future years by claiming maximum depreciation allowances for income tax purposes. It is sound policy and common practice in Canada to reduce income taxes currently payable by claiming maximum depreciation allowances. However, the prudent additional step of charging all deferred taxes against earnings on a year-to-year basis is not consistently followed by all companies with the result that earnings comparisons between companies may be distorted and misleading. As in prior years, we followed the conservative practice of providing in full for estimated income taxes resulting from 1965 earnings—both the amount payable currently and the amount deferred. Had we

provided only for income taxes payable currently, we would have reported earnings in 1965 of \$1.42¾ per share compared with earnings of \$1.28¼ per share in 1964 determined on a similar basis.

There was a continuing trend toward higher manufacturing costs attributable to considerably higher wage rates and increases in the cost of materials and transportation. Manufacturing efficiency was improved wherever feasible by the introduction of improved processes, machinery and manufacturing techniques. Close attention was paid to control of costs and waste in all of our plants and credit is due our supervisory staff for the satisfactory results.

Increases in selling prices in 1965 were few in number and modest in amount. There was no increase in the selling price of newsprint, the last increase taking place nearly nine years ago.

### **Strong financial position**

As the year closed we were in a strong financial position. Net working capital amounted to \$48,756,659 as compared with \$46,004,640, an increase of \$2,752,019 in the year. Included with current liabilities deducted in arriving at net working capital are payments of \$11,859,582 due within one year on outstanding long-term debt. These payments include \$10,713,000 due September 15, 1966 to holders of our Convertible Debentures that are subject to conversion into common shares up to that date.

In the second half of the year we completed the issue of 5¼% Sinking Fund Debentures Series A in the amount of \$20,000,000 U.S. funds which yielded \$21,500,000 on conversion to Canadian currency. This issue was made under the terms of a new and modern Trust Indenture that is likely to be our principal long-term borrowing instrument for some years to come. Terms of the new Trust Indenture enable the issue of additional debenture debt on the basis of a net tangible assets formula. The company has undertaken that it will not issue any further First Mortgage Bonds.

Retirements of long-term debt in 1965 amounted in total to \$2,821,813 including convertible debenture retirements of \$124,000 made up of conversions of \$84,000 into common shares and the retirement of \$40,000 by market purchase.

### **Record newsprint production**

Our sales of newsprint again increased. Production was 829,293 tons, the highest in our history and an increase of 10,033 tons over 1964. This outcome was achieved by high product quality, the addition of new customer accounts and, as in 1964, some assistance to other manufacturers who experienced operating difficulties. On the other hand, our volume was affected adversely by changes in the supply pattern in the most westerly section of our North American market area, brought about by a price differential introduced late in 1964 by west coast manufacturers. Seasonal influences in the consumption pattern were again apparent with the result that for some periods of the year our mills operated at full six-day per week capacity.

There are growing demands for newsprint with qualities particularly suited to specialty uses in the publishing and advertising fields. Magazine-type inserts in newspapers, for example, require newsprint with a built-in stretch quality. Abitibi is meeting these demands and is programmed to meet future requirements.

Abitibi's grade "O" newsprint continues to compete strongly in the growing

Proper packaging of newsprint rolls to protect against damage is of prime importance to Abitibi and its customers. This photograph shows one stage of the highly automated roll packaging installation at our Iroquois Falls mill.

Newsprint rolls from all seven Iroquois Falls paper machines are transferred by a conveyor system to roll packaging units in the finishing room where they are wrapped for shipment. Coupled to each packaging unit is an automatic data processing system that weighs each roll, prints labels and tabulates production, shipping and invoicing data.



market developed by the introduction of web offset printing presses for small and medium sized newspapers. Our co-ordination of research, production and marketing skills provides assurance that Abitibi will retain its leadership in this important market.

### **Fine and printing papers**

Throughout 1965 our production facilities for fine and printing papers operated at near to capacity levels. Sales of groundwood printing grades from our Sault Ste. Marie mill showed a marked increase, reflecting quality improvements made possible by the substantial capital outlays at this mill in recent years.

In the operations of Provincial Paper, Limited there was again an encouraging and significant trend toward increased production of high quality grades. Close attention was paid to market forecasting, production planning and control of inventories to improve scheduling in the mills and service to customers. While every effort was made to offset rising costs through increased efficiency, we found it necessary to increase selling prices of a number of grades.

The extensive expansion of fine paper manufacturing facilities at Port Arthur resulted in all of the problems and interruptions that were anticipated. One of the existing two paper machines was returned to successful operation with an increased annual capacity of 7,000 tons following full modernization and speed-up. The large undertaking involved in the planning and installation of the new 30,000 ton twin-wire machine is well advanced. This new machine, with the latest in papermaking and coating equipment, will be in production in the second quarter of 1966 and will increase considerably the range of fine paper grades we offer on the market. At the Thorold mill, with its five paper machines, we have re-organized and enlarged paper finishing and storage facilities resulting in economies in finishing operations and improvements in scheduling of the machines.

With the enlargement of its facilities and re-organization of its grade structures, Provincial Paper, Limited will shortly be in an improved position to service the considerable growth that fine paper markets are certain to offer.

### **Growth in building materials and paper boards**

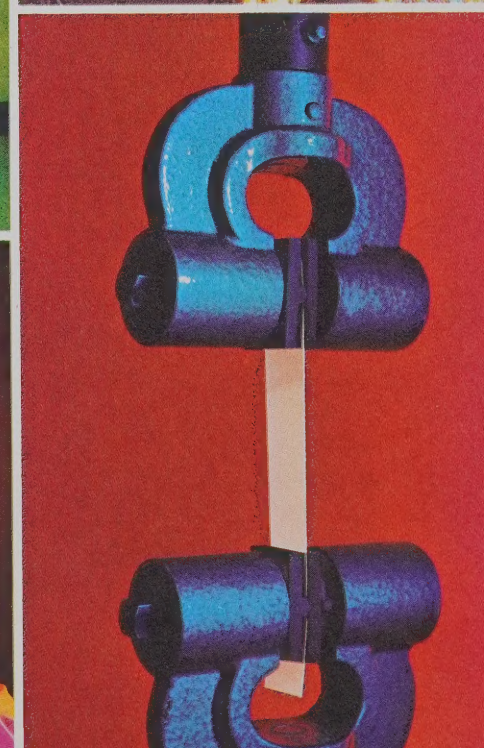
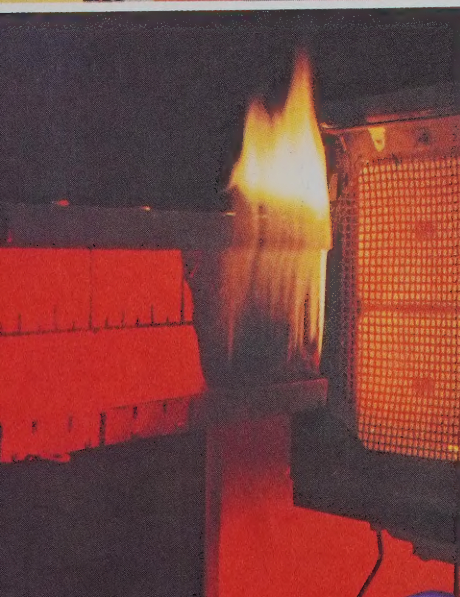
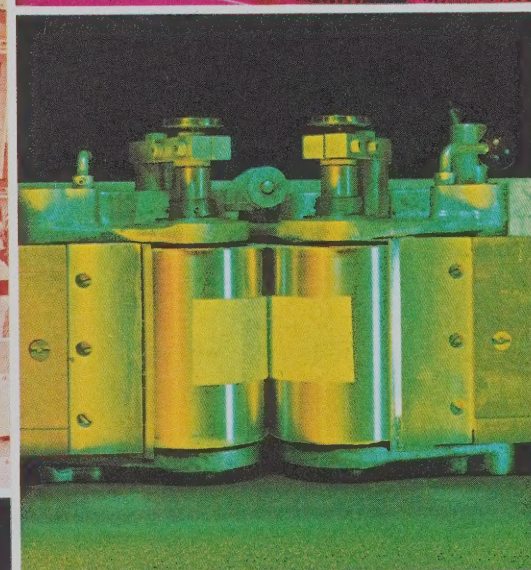
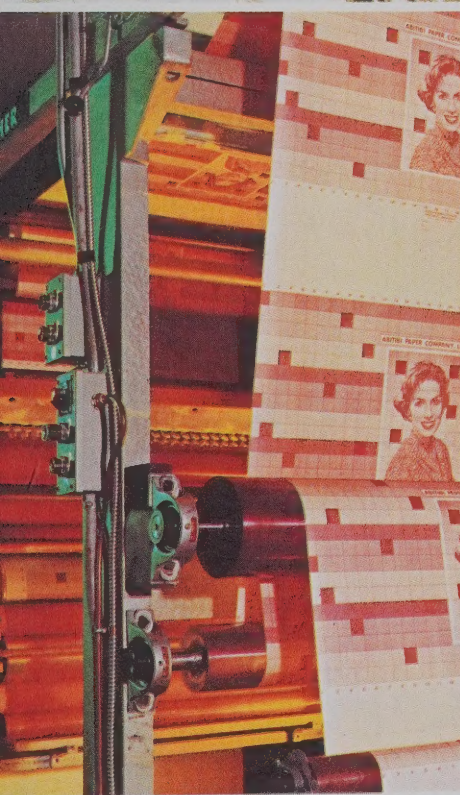
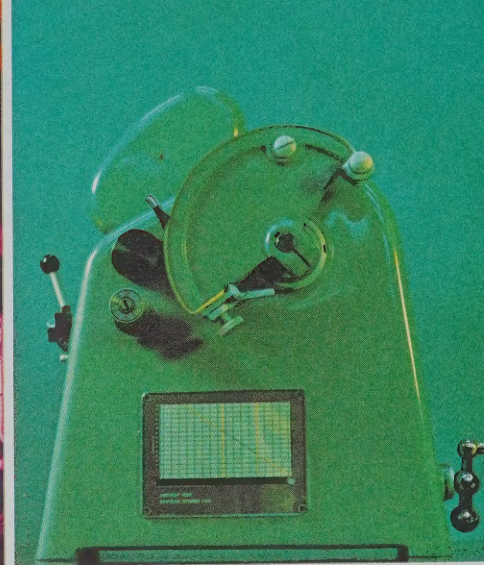
The past year was again one of progress and growth for Abitibi Corporation, our wholly-owned United States building materials subsidiary. The hardboard mill at Alpena, Michigan, operated very efficiently at capacity throughout the year. In addition to the sale of hardboard and allied products manufactured at Alpena, Abitibi Corporation also marketed a substantial quantity of industrial and dealer boards produced in Canada at Sturgeon Falls and Durham. Output of decorative wall paneling by the Miratile Panel Products Division was hampered by the major expansion and modernization program at the Chicago plant, the relocation of the California plant in newly-built premises at Cucamonga, and difficulties experienced in the initial operation of new production machinery. As of now, however, new facilities at both locations are approaching efficient operation.

Our Canadian hardboard and building product plants at Sturgeon Falls and Durham operated with increased volume in all product lines under keenly competitive market conditions that continued throughout the year. New hardboard and hardwood plywood products were released to customers and were well received. Several of our building product lines were introduced into the United Kingdom market.

Meticulous measurement typifies much of our research activity and the illustrations on the opposite page are indicative of the search for precise data.

Many sophisticated instruments have been developed to assist the eye, the ear, the sense of smell and the hands of the research worker. Microscopes and photography aid in the study of fibres and their inter-relationships in finished paper. Commercial and experimental printing presses aid in studying the effect of ink on the paper surface, laboratory devices split paper into as many as eight layers to study ink penetration and others stretch paper under controlled conditions. Specially developed flame tests measure the fire resistance of our board products.

Our interest in the study of wood and its chemical components reaches beyond the harvested tree right back to the seedling on the forest floor and the environmental and nutritional factors influencing its growth.



Our corrugating medium plant at Sturgeon Falls operated at capacity throughout the year. Corrugated container operations at Pembroke resulted in increased sales. The new container plant now being constructed in Toronto will be completed and in operation during the second quarter of 1966.

#### **Improvements and expansions to properties**

Capital expenditures on properties, plant and equipment, including logging equipment and development, amounted in 1965 to \$31,621,570 which is a substantial increase over 1964 and the largest outlay in any year in Abitibi history. As in former years, all divisions of the company participated in a carefully planned program having as its objectives the expansion of production facilities where warranted, the installation of processing facilities to reduce costs or to raise product quality and the further improvement of service to customers. The following is a summary of the more important projects completed or under way in 1965:

(a) As the year closed we completed the \$15,000,000 conversion of the Smooth Rock Falls pulp mill to the production of bleached kraft pulp and at year end were engaged in the start-up of these new facilities. The capacity of this plant now exceeds 100,000 tons per annum. About half of its output will be needed to meet consumption requirements in our own mills and these requirements will grow. The balance of its output will be sold on the market.

(b) In the second quarter of the year we completed the full modernization, commenced in 1964, of a paper machine at our Port Arthur fine paper mill to increase its capacity by 7,000 tons per annum. This involved a loss in production in 1965 due to shutdown and the subsequent break-in period. This additional capacity is now available to supply the expanding market for fine and printing papers in Canada.

(c) The Chicago plant of Abitibi Corporation was substantially enlarged and modernized. This plant is now capable of producing a 50% increased volume of tileboard and paneling products in greater variety and of higher quality for the mobile home, building and furniture markets.

(d) The California plant of Abitibi Corporation, formerly in leased premises at City of Industry, was relocated in new company-owned facilities at Cucamonga. This operation, now housed in specially designed buildings, was automated and doubled in capacity.

(e) Considerable headway has been made in the installation of the new \$8,000,000 paper machine at Port Arthur with a capacity of 30,000 tons per annum of fine and printing papers. It will be the largest twin-wire machine in North America. This new machine will be in operation during the second quarter of 1966 and will enlarge our fine paper range to include the manufacture of grades not presently produced in Canada.

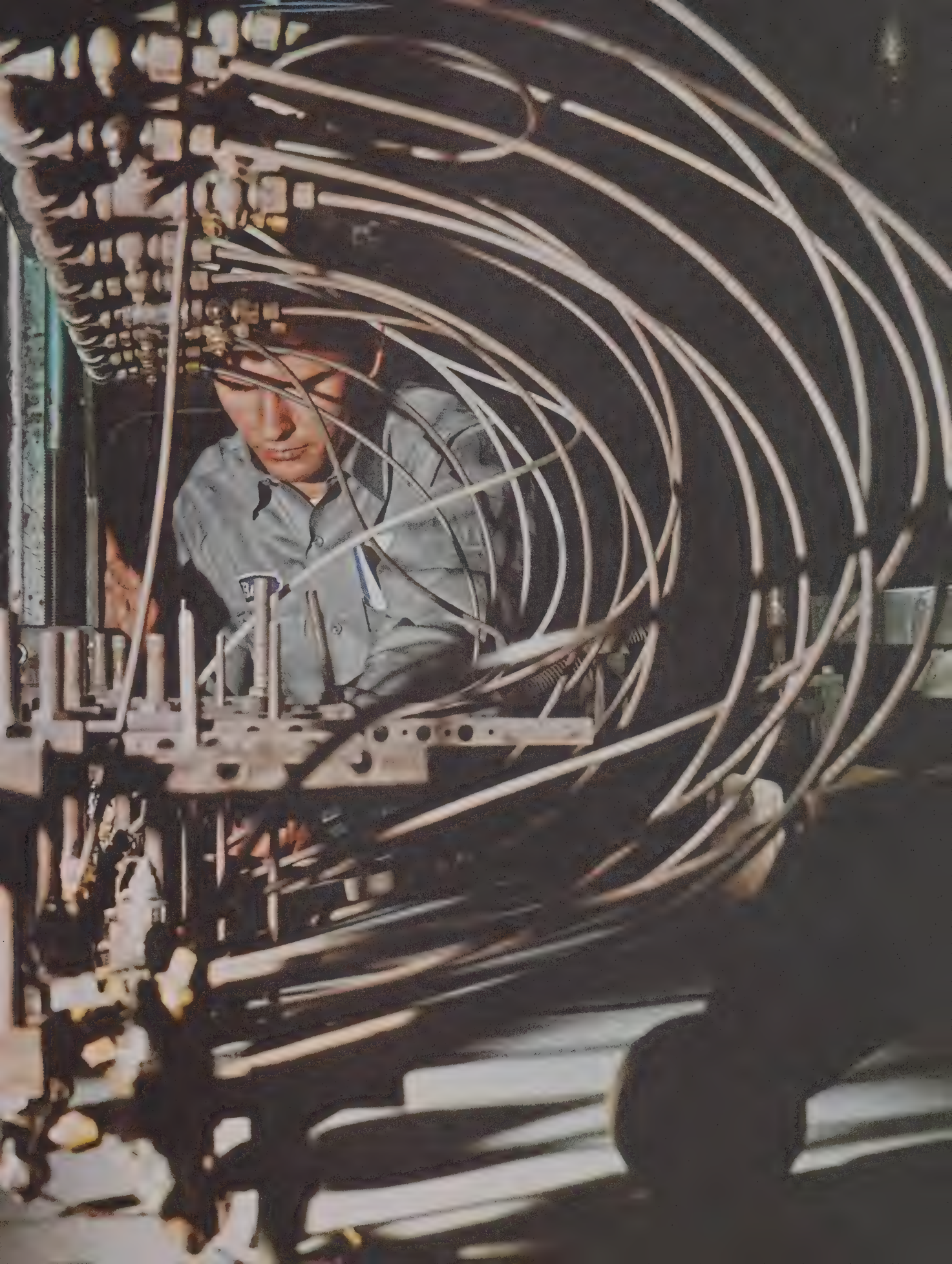
(f) Construction is well advanced on our new research centre at the planned Sheridan Park Research Community near the western boundary of Metropolitan Toronto. Occupancy is anticipated in the summer of 1966.

(g) Early in 1965 we announced our intention to build a new corrugated container plant in the suburbs of Toronto to improve service to customers and to increase our participation in the container industry in Canada. This new plant will be in operation in the second quarter of 1966.

Apart from the above major projects there were many significant improvements made to facilities at all of our divisions including those for the handling of pulpwood, the processing of pulps, the reduction of mill wastes, the manu-

This photograph was taken in Chicago at the substantially enlarged and modernized plant of Miratile Panel Products Division of Abitibi Corporation. The unusual pattern is formed by the feed lines to individual jets used in painting score lines on decorative wall panelings.

A great variety of attractive, distinctive and serviceable paneling products is manufactured at Chicago from hardboard produced at Alpena, Michigan. Products of the Chicago plant are used principally in residential construction, mobile homes and in furniture and cabinet manufacture.



facture of finished products and in packaging and warehousing.

### **Ownership of mineral rights**

It has been reported previously that Abitibi is the owner of more than 1,000 square miles of forest lands in the Province of Ontario with both surface and mineral rights. Some 800 square miles are comprised of eight large blocks to the northwest of the Lakehead and 216 square miles lie between Timmins and Smooth Rock Falls. Abitibi also has many small scattered holdings near Iroquois Falls and a majority interest in the mineral rights on eleven half-lots (160 acres each) in the Township of Kidd.

An agreement was entered into in 1963 with a large mining company for exploration of the 216 square miles to the north of Timmins. Abitibi will be a minority partner in the ownership of any ore body of commercial value that might be located. An intensive exploration program has been going on and is continuing. Up to the date of writing, Abitibi has not been advised of any findings of commercial value.

In addition to the exploration activity described above, Abitibi was involved directly to a limited extent in the exploration of certain of its holdings not subject to agreement with others. In the course of this limited mineral exploration program we encountered no findings of commercial significance.

### **Woodlands operations**

In the past operating season production of pulpwood for our plants in Quebec, Ontario, Manitoba and Michigan amounted to approximately 1,370,000 cords, obtained about equally from company operations and by purchase from independent producers. Our pulpwood supply includes both softwood and hardwood species and an increasing quantity of chips produced from sawmill operations.

Production methods continue to undergo additional mechanization. Tree-length logging is becoming common practice through the use of rubber-tired skidders and mobile mechanical slashers. There is an increasing trend to year round land delivery of pulpwood by trucks and trailers, resulting in a reduction in the investment in pulpwood inventories at the mills.

Through participation in Logging Research Associates, we are engaged in the development of logging machinery particularly suited to our operations. Field testing of prototype units continued throughout the year and considerable progress was made. Negotiations are under way for commercial production of the Arbomatic processor, a machine which converts full trees into prepared bark-free pulpwood in one continuous operation.

Development of our timberlands progressed in accordance with carefully prepared plans. In co-operation with the Ontario Department of Lands and Forests, we have an inventory survey under way for our limits at Smooth Rock Falls which were recently enlarged by 964 square miles to support increased pulp production at that location. Compilation of pulpwood inventory and operating surveys is now being done by computer.

Continued efforts are being made to utilize fully all species of trees encountered on our forest holdings. To the extent that some species are surplus to our existing requirements because of quantity or quality restrictions, it has been our practice for a number of years to make timber available to others for conversion to products such as lumber, veneer, railway ties, mining timber, etc. As in prior years we are continuing our co-operation with Provincial

A modern paper machine, such as this one at our mill at Beaupré, Quebec, produces newsprint paper at a speed greater than twenty miles per hour. Optimum performance and control require the measurement and adjustment of more than fifty operating variables.

Abitibi is using the electronic speed of a digital computer to record and calculate data on the operation of this machine to assist in reaching still higher levels of newsprint uniformity and productivity. Attention is now being directed to the use of the computer in anticipating and correcting changes in operating variables before they have an opportunity to affect quality.



Governments in encouraging the early regeneration of a second crop of desirable commercial species on cut-over areas on all lands under our control.

### **Research and development**

The quality and performance of our products in the market place is the keystone for a broad range of research projects both in our own laboratories and in research which we support in institutes and universities. Our accumulation of research knowledge over the past two decades is contributing regularly to higher and more consistent product quality, to better and less costly processing methods and to the development of new and improved products. This interest and investment in research will be maintained to assure continuing leadership in the development and manufacture of all our product lines.

The new and enlarged laboratory and pilot plant facilities in the Ontario research community at Sheridan Park will contribute to increased research activity. This new establishment will improve communications and services, will be stimulating to our scientists and will assist in the recruitment and retention of qualified personnel.

For more than a year we have been recording and measuring, through the use of a computer, process variables in the operation of a high-speed newsprint machine. Knowledge thus gained is contributing to increased efficiency in machine operation and improved consistency in product quality. We are now installing additional instrumentation to control paper characteristics within closer limits than manual control will permit. There are other possible control applications to be investigated and our interest in this project will be continued.

### **Shareholder relations and common shares**

There were 31,148 holders of Abitibi common shares at December 31, 1965 compared with 25,476 one year earlier and 19,488 at the close of 1963. This is an increase of 22% in a one-year period and 60% since 1963.

A Special General Meeting of Shareholders was held in Toronto on August 12, 1965. At this meeting shareholders approved a revised version of By-law No. 1 amended to meet modern business conditions and a by-law authorizing an application for supplementary letters patent to change the name of the company to Abitibi Paper Company Ltd. The principal changes in By-law No. 1 were—the transfer of the head office from Iroquois Falls to Toronto; an increase in the number of directors from eleven to thirteen; an age limit for directors; an increase from four to five in membership of the Executive Committee of the Board of Directors and the updating of sections dealing with record dates, voting at meetings, etc. to accord with modern business practice and to comply with the new Canada Corporations Act.

Common shares issued in 1965 consist of 6,720 shares on conversion of debentures and 2,000 shares under terms of the Key Employees' Stock Option Plan. There were 17,373,708 common shares outstanding at the close of 1965 compared with 17,364,988 shares at the close of 1964.

### **Board of directors**

It is with deep regret that we report the passing in 1965 of Mr. J. S. D. Tory, Q.C., director and general counsel and of Mr. W. H. Smith, honorary director. Mr. Tory had been a director since 1946. He had a deep and sincere interest in Abitibi affairs and contributed materially to our company's progress. Mr. Smith served the company in a senior capacity for many, many years. He

Progress in the installation of the new twin-wire paper machine at our Port Arthur fine paper division is shown in this photograph.

Housing this installation is a completely new building more than 525 feet in length and 60 feet in height. Aluminum ducts are part of the heating and ventilation system.

This new machine, the largest of its type in North America, will produce a wide range of coated heavy weight papers including grades not previously manufactured in Canada.



was a director from 1946 to 1961 and a valued honorary director thereafter.

Mr. T. O. Peterson of Winnipeg and Mr. John A. Tory, Q.C. of Toronto were elected to the Board of Directors in the second half of the year. Mr. Peterson is Chairman of the Board and President of The Investors Group. Mr. Tory is a partner in the firm of Tory, Tory, DesLauriers & Binnington and has had a long association with Abitibi affairs. These two experienced and qualified men of sound judgment are a welcome addition to the Board.

### **Personnel and industrial relations**

The directors wish to thank all employees of the company and its subsidiaries for the co-operation and enthusiasm displayed in meeting the problems of the past year. Abitibi is proud of the calibre of the men and women in its organization and a reciprocal feeling of pride in the company is held by its employees.

Since 1965 was a year of substantial change and growth, it was a difficult one for many employees. The renovation and improvement of facilities, the start-up of new equipment and the training of employees, all added burdens to the day-to-day responsibilities of many jobs.

Most of our union agreements expired and were renegotiated in 1965, many for terms of up to three years. Negotiations were protracted and the wage increases eventually agreed to, while similar to settlements elsewhere in the industry, were substantial and will add to operating costs during the contract periods. Under these circumstances the company is taking many steps to raise productivity throughout its operations and, in turn, each individual employee has a responsibility to increase the value of his or her contribution.

The Canada and Quebec Pension Plans, which commenced January 1, 1966, are being integrated with company pension plans at no additional cost to individual members. This desirable outcome was achieved with the co-operation of study committees appointed by employee unions. The company has guaranteed that individual pensions will not be reduced in the aggregate because of integration with government plans.

### **The outlook**

We expect that 1966 will be another year of growth for the pulp and paper industry and for our company.

Our capital expenditures in 1966 will again be large in amount although somewhat lower in total than in 1965. The extensive modernization and expansion of our plants and research facilities, together with additions and improvements to our product lines, is placing us in an excellent position to share in the great increase in demand for pulp, paper and board products that is sure to develop over the next ten years.

In 1965 we built for the future as indeed we will continue to do. Our organization is capable and fully competent to cope with the demands that lie ahead.

On behalf of the Board,



February 3, 1966

President

Shown alongside is the recently modernized paper machine at our Port Arthur fine paper division. This machine now produces fine paper at a speed of 1,000 feet per minute in widths up to 135" and has an annual capacity of 25,000 tons.

Modernization involved the installation of a longer fourdrinier section, new heavy duty presses, an enlarged dryer section, an additional calender stack, a new electric drive, a new reel, etc. Extensive modifications were made also to the stock preparation system servicing the machine.

In addition to its increased capacity of 7,000 tons per annum, this machine now produces an expanded range of fine paper grades.



## Production for the market—tons

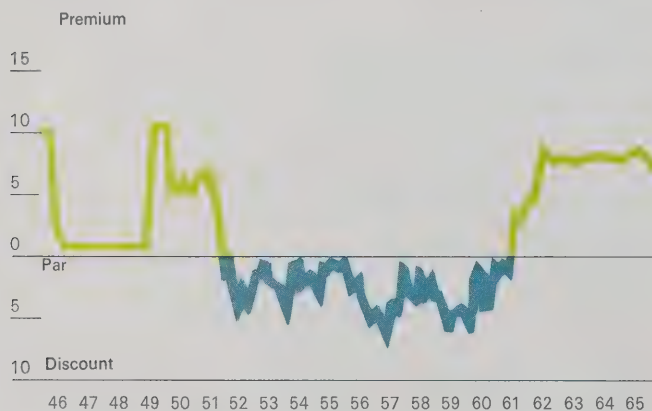
	Newsprint paper	Fine and printing papers	Paperboard and building materials	Market pulp	Total
1956	815,830	98,038	65,185	67,377	1,046,430
1957	765,533	101,952	69,103	63,516	1,000,104
1958	692,781	96,905	114,202	51,446	955,334
1959	735,215	107,884	138,754	44,008	1,025,861
1960	780,043	112,137	144,834	40,672	1,077,686
1961	741,978	117,332	145,833	44,352	1,049,495
1962	756,021	123,939	164,166	36,301	1,080,427
1963	740,556	132,094	177,288	39,966	1,089,904
1964	819,260	132,283	205,100	55,866	1,212,509
1965	829,293	136,720	227,308	46,825	1,240,146

## Distribution of 1965 dollar sales by principal markets

Distribution in 1964  
Canada 37%  
U.S.A. 54%  
Overseas 9%

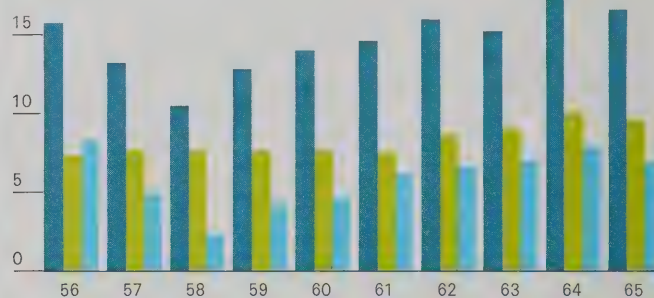


## Exchange rate on conversion of U.S. dollars 1946-65

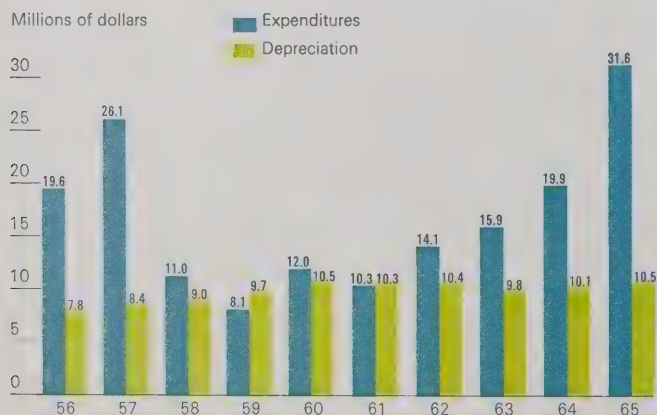


## Taxes on income, dividends and retained earnings

Millions of dollars,   
 20   
 Taxes on income (current and deferred)   
 Dividends   
 Retained earnings



## Capital expenditures and depreciation



## Per common share



# CONSOLIDATED NET EARNINGS

	Year ended December 31	
	1965	1964
Net sales . . . . .	\$194,411,148	\$184,708,539
Cost of products sold and all expenses except items shown below	146,982,224	135,858,229
	\$ 47,428,924	\$ 48,850,310
Interest and other income . . . . .	979,355	780,175
	\$ 48,408,279	\$ 49,630,485
Provision for depreciation . . . . .	\$ 10,386,453	\$ 10,036,903
Provision for depletion . . . . .	100,000	105,000
Employees' retirement income plan . . . . .	2,577,397	2,306,104
Interest on long term debt . . . . .	2,406,376	1,709,297
Discount and expense on long term debt . . . . .	42,046	41,483
	\$ 15,512,272	\$ 14,198,787
Earnings before taxes on income . . . . .	\$ 32,896,007	\$ 35,431,698
Taxes on income—current . . . . .	\$ 8,092,000	\$ 12,757,500
—deferred (note 3) . . . . .	8,068,000	4,740,500
	\$ 16,160,000	\$ 17,498,000
Net earnings . . . . .	\$ 16,736,007	\$ 17,933,698
Net earnings per common share . . . . .	\$ .96¼	\$ 1.01

# CONSOLIDATED RETAINED EARNINGS

	Year ended December 31	
	1965	1964
Retained earnings at beginning of year . . . . .	\$112,425,480	\$104,526,416
Net earnings for the year . . . . .	16,736,007	17,933,698
	\$129,161,487	\$122,460,114
Dividends declared on preferred shares . . . . .	\$ —	\$ 395,221
Dividends declared on common shares . . . . .	9,727,742	9,639,413
(being the dividends paid on April 1st, July 1st, October 1st and payable January 1st)		
	\$ 9,727,742	\$ 10,034,634
Retained earnings at end of year . . . . .	\$119,433,745	\$112,425,480



## LIABILITIES

	December 31	
	1965	1964
<b>Current liabilities:</b>		
Accounts payable . . . . .	\$ 19,404,167	\$ 15,092,980
Dividend payable January 1st . . . . .	2,432,308	2,431,087
Interest accrued on long term debt . . . . .	695,741	464,596
Income and other taxes . . . . .	3,738,476	5,994,217
Payments due within one year on long term debt including Convertible Debentures of \$10,713,000 due September 15, 1966	11,859,582	1,389,686
	<u>\$ 38,130,274</u>	<u>\$ 25,372,566</u>
<b>Long term debt:</b>		
4¼% First Mortgage Sinking Fund Bonds, Series B, due July 15, 1974 . . . . .	\$ 4,950,500	\$ 5,568,500
6¼% First Mortgage Sinking Fund Bonds, Series C, due November 15, 1977 . . . . .	8,157,000	8,999,000
5¼% Sinking Fund Debentures, Series A, due September 15, 1985 (\$20,000,000 U.S. Funds) . . . . .	21,500,000	—
4½% Convertible Debentures, Series A, due September 15, 1966 (note 4) . . . . .	10,713,000	10,837,000
5⅛% Instalment Notes, due May 1, 1984 (\$14,400,000 U.S. funds)	15,486,720	16,131,780
6.1% Instalment Note . . . . .	—	592,753
	<u>\$ 60,807,220</u>	<u>\$ 42,129,033</u>
Less—Amount included with current liabilities . . . . .	11,859,582	1,389,686
	<u>\$ 48,947,638</u>	<u>\$ 40,739,347</u>
<b>Deferred taxes on income</b> (note 3) . . . . .	\$ 14,846,500	\$ 6,604,500

## SHAREHOLDERS' EQUITY

<b>Preferred shares:</b>		
Authorized and unissued: 450,000 shares par value \$25 each issuable in series . . . . .	—	—
<b>Common shares:</b> (note 5)		
Authorized: 24,000,000 shares without nominal or par value		
Issued: 17,373,708 shares (1964—17,364,988 shares) . . . . .	\$ 44,617,728	\$ 44,513,728
<b>Retained earnings</b> . . . . .	119,433,745	112,425,480
	<u>\$164,051,473</u>	<u>\$156,939,208</u>
	<u>\$265,975,885</u>	<u>\$229,655,621</u>

**CONSOLIDATED SOURCE AND APPLICATION OF FUNDS**

<b>Source of funds:</b>	<b>1965</b>	<b>1964</b>
Net earnings.....	\$ 16,736,007	\$ 17,933,698
Non-cash charges deducted in arriving at net earnings:		
Depreciation and depletion.....	10,486,453	10,141,903
Discount and expense on long term debt.....	42,046	41,483
Deferred taxes on income.....	8,068,000	4,740,500
Funds derived from operations.....	\$ 35,332,506	\$ 32,857,584
Disposal of capital assets.....	279,133	216,790
Issue of long term debt.....	21,500,000	16,132,812
Common shares issued under option agreements.....	20,000	684,575
Increase in deferred portion of prior year taxes on income	174,000	379,000
Other items—net.....	3,401	—
	<u>\$ 57,309,040</u>	<u>\$ 50,270,761</u>
<b>Application of funds:</b>		
Invested in properties, plant and equipment.....	\$ 30,417,767	\$ 19,115,962
Expenditures on logging equipment and development..	1,203,803	770,619
Long term debt retired or included with current liabilities	13,207,709	3,010,434
Par value of preferred shares retired.....	—	8,990,450
Dividends declared on preferred shares.....	—	395,221
Dividends declared on common shares.....	9,727,742	9,639,413
Other items—net.....	—	305,638
	<u>\$ 54,557,021</u>	<u>\$ 42,227,737</u>
Resulting in an increase in working capital of.....	\$ 2,752,019	\$ 8,043,024
Working capital at beginning of year.....	46,004,640	37,961,616
<b>Working capital at end of year</b> .....	<u>\$ 48,756,659</u>	<u>\$ 46,004,640</u>

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

- Balances and transactions in other currencies have been restated in Canadian dollars as follows:  
Current assets and current liabilities at exchange rates in effect at December 31st; capital assets at rates in effect at dates of acquisition; long term debt at rates in effect when debt incurred; net sales and expenses of United States subsidiary companies at average rates for the year except for depreciation provisions which are on the same basis as the related capital assets.
- Properties, plant and equipment are stated at cost except for assets of a net depreciated book value of \$9,092,098 at December 31, 1965, included at appraised values as at April 30, 1946 as reported by Coverdale & Colpitts, Consulting Engineers.
- It is the company's general practice for income tax purposes to claim maximum depreciation allowances. Such allowances for 1965 are in excess of depreciation provided in the accounts. The resulting deferred income taxes in 1965 of \$8,068,000 are charged against 1965 earnings and included in the total of \$14,846,500 set aside on the balance sheet as deferred taxes on income.

4. Convertible Debentures may be converted into common shares at the option of the holders up to September 15, 1966, at the rate of 80 shares per \$1,000 debenture.
5. A total of 8,720 common shares were issued during the year being 6,720 shares on conversion of \$84,000 principal amount of Debentures and 2,000 shares under terms of the Key Employees' Stock Option Plan for an aggregate cash payment of \$20,000.

Of the authorized and unissued common shares, 857,040 shares are reserved for possible conversion of Debentures and 274,536 shares are reserved under the Key Employees' Stock Option Plan. Options granted under this Plan are for terms of up to ten years at market value at date of grant and may be exercised in annual installments following fulfillment of service conditions. Outstanding share options and option prices at December 31, 1965 are as follows:

<u>To directors or officers</u>	<u>To other employees</u>	<u>Together</u>	<u>Option price per share</u>	<u>Exercisable during 1966</u>
73,800	—	73,800	\$ 9.50	73,800
5,936	—	5,936	10.00	5,936
68,400	48,000	116,400	10.56¼	66,800
<u>148,136</u>	<u>48,000</u>	<u>196,136</u>		<u>146,536</u>

6. Under the terms of the Trust Indenture entered into in connection with the issue in 1965 of 5¼% Sinking Fund Debentures, Series A, the company has undertaken that, so long as any of such Debentures are outstanding, dividends paid subsequent to December 31, 1964 on its common shares will not be more than consolidated net income earned after that date plus the sum of \$10,000,000.
7. Total remuneration, as directors and officers, of directors in 1965 was \$190,900.

## AUDITORS' REPORT TO THE SHAREHOLDERS

To the Shareholders of ABITIBI PAPER COMPANY LTD.:

We have examined the consolidated balance sheet of Abitibi Paper Company Ltd. and subsidiary companies as at December 31, 1965 and the consolidated statements of net earnings and retained earnings for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet and consolidated statements of net earnings and retained earnings present fairly the financial position of the companies as at December 31, 1965 and the results of their operations for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

We also examined the consolidated statement of source and application of funds for the year ended December 31, 1965, which is presented as supplementary information and, in our opinion, the statement presents fairly the information shown therein.

PRICE WATERHOUSE & CO.  
Chartered Accountants

Toronto, February 1, 1966

**TEN YEAR REVIEW**

	1965	1964	1963
<b>Sales and earnings</b>			
Net sales . . . . .	\$194,411,148	\$184,708,539	\$164,575,637
Depreciation and depletion . . . . .	10,486,453	10,141,903	9,853,823
Interest on long term debt . . . . .	2,406,376	1,709,297	1,652,146
Earnings before taxes on income . . . . .	32,896,007	35,431,698	31,247,502
Taxes on income (current and deferred) . . . . .	16,160,000	17,498,000	15,040,000
Net earnings . . . . .	16,736,007	17,933,698	16,207,502
Net earnings per common share* . . . . .	\$ .96¼	\$ 1.01	\$ .93
<b>Dividend record</b>			
On preferred shares . . . . .	\$ —	\$ 395,221	\$ 412,046
On common shares . . . . .	9,727,742	9,639,413	8,682,138
Declared per common share* . . . . .	\$ .56	\$ .56	\$ .51½
<b>Capital expenditures</b>			
On properties, plant and equipment . . . . .	\$ 30,417,767	\$ 19,115,962	\$ 15,007,893
On logging equipment and development (from 1957) . . . . .	1,203,803	770,619	950,320
On timber limits . . . . .	—	—	—
<b>Financial position</b>			
Current assets . . . . .	\$ 86,886,933	\$ 71,377,206	\$ 64,029,331
Current liabilities . . . . .	38,130,274	25,372,566	26,067,715
Net working capital . . . . .	48,756,659	46,004,640	37,961,616
Capital assets, at net book values . . . . .	174,295,987	153,440,003	143,912,115
Investments and other assets . . . . .	4,792,965	4,838,412	4,574,257
Long term debt . . . . .	48,947,638	40,739,347	31,677,969
Deferred taxes on income . . . . .	14,846,500	6,604,500	1,485,000
Equity of shareholders . . . . .	164,051,473	156,939,208	153,285,019
<b>Equity of shareholders</b>			
Equity of preferred shareholders . . . . .	\$ —	\$ —	\$ 8,990,450
Equity of common shareholders . . . . .	164,051,473	156,939,208	144,294,569
Outstanding common shares* . . . . .	17,373,708	17,364,988	16,971,108
Equity per common share* . . . . .	\$ 9.44	\$ 9.04	\$ 8.50

\*The number of common shares and per share calculations have been adjusted where applicable to reflect the 4 for 1 stock split on November 30, 1963

1962	1961	1960	1959	1958	1957	1956
\$156,005,549	\$147,587,462	\$146,339,604	\$133,813,074	\$123,385,542	\$128,198,755	\$132,497,683
10,369,899	10,289,473	10,463,547	9,680,353	9,039,110	8,434,717	7,752,873
1,738,212	1,828,793	1,869,249	2,008,936	2,083,546	1,652,016	1,214,552
31,275,251	28,267,636	26,066,288	24,525,544	20,127,382	25,552,283	31,012,827
15,780,000	14,557,000	13,800,000	12,700,000	10,470,000	13,050,000	15,589,000
15,495,251	13,710,636	12,266,288	11,825,544	9,657,382	12,502,283	15,423,827
\$ .90¼	\$ .79½	\$ .70¾	\$ .68	\$ .54¾	\$ .71½	\$ .89
<hr/>						
\$ 433,026	\$ 453,504	\$ 471,199	\$ 507,803	\$ 547,796	\$ 578,441	\$ 605,360
8,330,868	7,077,577	7,077,579	7,077,579	7,077,582	7,077,580	6,661,252
\$ .50	\$ .42½	\$ .42½	\$ .42½	\$ .42½	\$ .42½	\$ .40
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\$/ 13,222,400	\$ 9,729,078	\$ 10,340,956	\$ 7,105,455	\$ 10,423,905	\$ 25,194,262	\$ 19,165,594
890,700	594,279	1,666,438	955,345	592,602	894,624	—
—	—	—	—	14,344	53,508	466,299
<hr/>						
\$ 65,886,200	\$ 63,107,968	\$ 61,091,507	\$ 60,070,996	\$ 57,714,700	\$ 62,169,246	\$ 74,057,870
25,786,818	22,064,539	22,513,567	20,312,046	17,317,852	20,557,436	25,801,233
40,099,382	41,043,429	38,577,940	39,758,950	40,396,848	41,611,810	48,256,637
132,606,747	128,985,592	129,030,527	126,113,480	127,995,218	126,082,118	106,504,498
5,528,727	5,644,395	4,713,044	3,498,462	2,547,639	3,964,105	4,096,523
33,677,500	37,410,000	39,897,500	40,632,000	45,555,500	47,984,000	40,598,000
—	—	—	—	—	—	—
144,557,356	138,263,416	132,424,011	128,738,892	125,384,205	123,674,033	118,259,658
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\$ 9,339,300	\$ 9,908,425	\$ 10,248,575	\$ 10,836,425	\$ 11,721,900	\$ 12,552,000	\$ 13,105,250
135,218,056	128,354,991	122,175,436	117,902,467	113,662,305	111,122,033	105,154,408
16,666,736	16,652,872	16,652,872	16,652,872	16,652,872	16,652,872	16,652,872
\$ 8.11	\$ 7.71	\$ 7.34	\$ 7.08	\$ 6.82	\$ 6.67	\$ 6.31
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## **ABITIBI PAPER COMPANY LTD.**

Incorporated under the laws of Canada

Head Office: 408 University Avenue, Toronto, Canada

### **DIRECTORS**

**Douglas W. Ambridge**, Chairman of the Board, Abitibi Paper Company Ltd., Toronto, Canada

**Harry J. Carmichael**, Industrialist, Toronto, Canada

**C. Antoine Geoffrion, Q.C.**, Geoffrion & Prud'homme, Montreal, Canada

**Allan Graydon, Q.C.**, Blake, Cassels & Graydon, Toronto, Canada

**Charles L. Gundy**, President, Wood, Gundy & Company Limited, Toronto, Canada

**Franklin T. McClintock**, Drexel Harriman Ripley, Inc., New York, U.S.A.

**T. Rodgie McLagan**, President, Canada Steamship Lines, Limited, Montreal, Canada

**Theodore O. Peterson**, Chairman of the Board and President, The Investors Group, Winnipeg, Canada

**Robert H. Reid**, President and Managing Director, London Life Insurance Company, London, Canada

**Paul E. Roberts**, President and Chief Executive Officer, Abitibi Paper Company Ltd., Toronto, Canada

**The Rt. Hon. Lord Thomson of Fleet**, Publisher, London, England

**John A. Tory, Q.C.**, Tory, Tory, DesLauriers & Binnington, Toronto, Canada

Honorary Director, **Joseph P. Ripley**

### **OFFICERS**

**Paul E. Roberts**, President and Chief Executive Officer

**Douglas W. Ambridge**, Chairman of the Board

**George M. Brain**, Senior Vice-President—Fine Papers Group

**Robert E. E. Costello**, Senior Vice-President—Operations

**C. Harry Rosier**, Senior Vice-President—Board Products Group

**W. Stanley Rothwell, F.C.A.**, Senior Vice-President—Finance and Treasurer

**J. Elliot Cottrelle**, Vice-President—Sales

**E. Edward Grainger**, Vice-President—Woodlands

**Ernest W. McBride**, Vice-President—Manufacturing (Newsprint and Pulp)

**James Flintoft, Q.C.**, Secretary

**Roy Curtis, C.A.**, Comptroller and Assistant Treasurer

**William H. S. Pote**, Assistant Treasurer

**Michael D. Thompson**, Assistant Secretary

### **TRANSFER AGENTS AND REGISTRARS**

**Montreal Trust Company**, Toronto, Montreal, Vancouver, Halifax, Winnipeg and Calgary, Canada

**First National City Bank**, New York, U.S.A. (Transfer Agent)

**Bankers Trust Company**, New York, U.S.A. (Registrar)

### **AUDITORS**

**Price Waterhouse & Co.**, Toronto, Canada

## ABITIBI COMPANIES AND PRODUCTS



### **ABITIBI PAPER COMPANY LTD.**

Parent company with manufacturing operations in Ontario

Head Office: Toronto, Ont.

Newsprint: Iroquois Falls, Fort William and Port Arthur, Ont.

Newsprint and groundwood specialty papers: Sault Ste. Marie, Ont.

Bleached sulphate pulp: Smooth Rock Falls, Ont.

Corrugating medium, hardboards and particle boards: Sturgeon Falls, Ont.

### **Abitibi Sales Company, Limited**

Sales agent for newsprint, groundwood specialty papers, bleached sulphate pulp, corrugating medium, hardboards, particle boards, veneers and hardwood plywoods

Sales offices: Toronto, Ont.; Montreal, Que.; Winnipeg, Man.

Subsidiary company:

Abitibi Service Inc.

Serving customers in the United States

Offices: Dayton, Ohio; New York, N.Y.; Chicago, Ill.

### **Abitibi Corporation**

Manufacture and sale of hardboards and insulation boards in the United States

Plant and executive office: Alpena, Mich.

Sales Offices: Detroit, Mich.; Chicago, Ill.; Dayton, Ohio; New York, N.Y.

Miratile Panel Products Division

Decorative hardboards and plywood panel products

Chicago, Ill. and Cucamonga, Calif.

### **Provincial Paper, Limited**

Manufacture and sale of fine and printing papers

Machine and trailing blade coated papers, bristols and other heavyweight specialties, coated and uncoated: Port Arthur, Ont.

Book, writing and specialty papers: Thorold, Ont.

Coated printing and litho papers: Georgetown, Ont.

Sales Offices: Toronto, Ont.; Montreal, Que.; Winnipeg, Man.

### **Manitoba Paper Company, Limited**

Manufacture of newsprint: Pine Falls, Man.

### **Ste. Anne Paper Company, Limited**

Manufacture of newsprint: Beaufort, Que.

Subsidiary companies:

St. Anne Power Company

Baie St. Paul Lumber Company Limited

Conducting woodlands operations from Beaufort, Que.

### **Pembroke Shook Mills, Limited**

Manufacture and sale of corrugated cartons: Pembroke and Toronto, Ont.

### **Maple Leaf Veneer Limited**

Veneers and hardwood plywoods: Durham, Ont.

### **Other subsidiary companies:**

Abitibi Aviation Limited: Toronto, Ont.

Mattagami Railroad Company: Smooth Rock Falls, Ont.

Geomont Exploration Company Limited: Toronto, Ont.

### **Affiliated company:**

Abitibi Bathurst (U.K.) Limited: London, S.W. 7, England

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